

University of Wales Trinity Saint David

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Introduction

Strategic management accounting has many definitions and one of them is managing and analysing the company finances. But at the same time implements and accounting system to examine, accommodate and command your strategic company goals.(Payne,2008) The management accounting helps to define and measure the goals but also to develop the company goals. If we analyse the term management accountancy the accountings' role is providing all the data and financial information and the management is the strategic plan to achieve the goal. When we apply all this information in the business prospective even as a very solid plan it needs to adapt to current circumstances. Any type of changes that can affect the business need to be taken into a consideration and new strategy that the competitors are carrying out. Any factors that may change the current strategy may affect the budget of the business and the accounting will play a crucial role.(Cinquini ,Tenucci,2010) The business strategy of any company is to make profit and creating a plan to outpace competitors by offering consumers the same products. To implement it the company, need to investigate using an advantage of a wholesale discounts, volume buying using a discount scheme, and renegotiating fixed costs where possible. The accounting role in the whole process is defined by running the numbers to help the business to measure the risk of certain decision. For example, if the company decide to offer a discount to its customers and that offer can reflect the profit lane of the business. They may try to look for different alternatives where the business can increase the profit. And the accounting can provide the information and all figures to the business for creating a stable financial strategy.(Lovering,2021) The process of management accounting is helping business to grow in a long term by adapting a flexible strategy that need to change influenced by certain factors. Some of the reasons for the plan to fail could be that the goals are not realistic or not enough sources to carry the plan to a success. The role of the management accounting is to prevent that happing by offering a ongoing analyses of cost and revenues. (Mc Lean,2018)

Amana LTD

Part 1

In our report we are going to analyse a family-owned business called Amana Ltd. The company is tourist located business in UK which sells souvenirs to people visiting for holiday or want to buy a gift. They are operating their business from different locations as

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such as Central London and other cities Brighton, Birmingham, and Manchester. They have chosen a central location in each city where most tourist will gather. On the top of the domestic market the tourist trade it boosts the gift industry. They are huge number of tourists visiting UK each year and most desirable locations are London and the other cities that Amana's is operating from(LFR News ,2021)



 alamy stock photo

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Most visitors would like to purchase gift to take back home. That puts the company into an exceptionally good position comparing to other competitors on the market. The souvenirs are produced in China designed by Amana's company specifications. The company has been operating successfully on the market for over 40 years and have a vast experience in the industry. They have closed the cycle from production to selling to the consumers directly. The company is operating in a very dynamic industry which is well established in UK and has a great popularity. The number of visitors to the UK is growing every year remaining its top positions. In the past two years since the pandemic the company has suffered a great deal from all the restrictions imposed. The tourist industry was the one to be hit the hardest. Such a precedent it was not known in the past. Many businesses had to make drastic changes

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and suffered great losses or going bankrupt. Even though the business had a chance to start operating in the summer which we know is the best time to for visitors to come to England the sales could not compensate the losses occurred. The company has only been operating from a physical store with using the website only for marketing on the stores and products ranges. The company had to adapt to new environment and get some external help from a new manager. The information provided by Amana's had to give an indication about the status and creating a new strategy for moving forward. It is a great challenge for any manager due to the circumstances and restrictions in place.

Items	Cost per unit	Original (£)	Fixed (£)	Actual (£)	Variance
Units		100,000	80,000	80,000	
Selling Price	25	25	25	20	5UF
		2 ,500, 000	2, 000 ,000	1,600,000	400,000 UF

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Revenue					
Variable Costs:					
Materials	2.50	250,000	200,000	280,000	80,000 UF
Labour	4	400,000	320,000	440,000	120,00UF
Overhead	1.50	150,000	120,000	120,000	0
Contribution	17	1,700,000	1,360,000	760,000	600,000 UF
Fixed overheads:					
Warehouse rental	200,000	200,000	200,000	170,000	30,000F
Insurance	100,000	100,000	100,000	100,000	0
Full Time warehouse supervisor	50,000	50,000	50,000	35,000	15,000F
		1,350,000	1,010,000	455,000	555,000UF
Profit					

If we look at the monthly report control sheet, we can identify the following changes occurred during the pandemic. They few things that have a significant impact.

Firstly, in the regards to the selling we can notice a reduction from the original budget to the actual budget. The company has taken this measure to boost sales during the pandemic. The company has reduced the selling price and the variance in unfavourable. The decision has impacted significantly on the total revenue. The actual revenue decreased, and the variance occurred is unfavourable. Because overall sales have reduced by 20 000 units from the original budget planned by the company. If we investigate investigating the variable costs,

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they have gone up from the initial plan compare to the actual budget. We can notice an increase in the cost of the materials, labour, and overheads from the original to the actual budget. If we are going to analyse the change in the level from the managers perspective, we must identify the reasons. The souvenirs are produced in China the country that was the first to be affected by the Covid 19 (GLA, 2021). They were the first country to close borders and impose heavy restrictions in place. The Amana's position it was not in a favourable situation as the UK economy was still operating as usual at that period. To adapt or find different manufacturers and negotiate prices from Amana's point would be exceedingly difficult. As any decisions with that matter requires time and proper research even for a well-established business that has been operating for a long time. From the report we can identify a change in the fixed costs and in favour of the business. They have managed to renegotiated terms with the landlords and reduce the rental cost with £30,000. Even though the insurance remains the same Amana's cost for the full-time supervisor have reduced in favour of the company. They have managed to save an additional £15000 from the cost of the salary.

The strategy that Amana's adopted to boost sales was to reduce the selling price and hopefully attracting more customers. In Amana's case they did not have so much control over the variable cost and the price reduction was the strategy used. Due to the increase of the variable costs and reductions in sales the impact on the revenue was significant. The business is depended on the foot flow of customers and physical sales in the shops. The changes in prices will not make such a big change to the number of sales. The reason is if they are not many people around even if the prices are good the business cannot sell the goods. And if we are going to investigate the increase in the flexible costs and how they have impacted the revenue and profit of the business. Amana's business is a product-based business very heavily depended on the costs of materials. The increased price of the costs impacted the profit of the business. Even tough they have managed to find one of the suppliers and manufacturers well known for the low level of prices. China is the country where the options for finding are cheap manufacturers are popular and most product based businesses are supplying good from there. The problem may occur is that the business may become heavily depended on that one supplier. And if the circumstances change then the business does not have much flexibility and cannot implemented changes in short period of time. The timescale for finding a new supplier could be very costly. For a business that is well established and have strong position on the market working with more than one manufacturer is not exceedingly difficult. If they have more than more than one supplier, Amana's may not be able to achieve such a low wholesale price or good discount. If one of the suppliers increase the costs prices Amana's can explore the option to renegotiate. And if that approach does not work, they can quickly negotiate quantity and order from the second supplier. Even if they may not benefit as much from the discounts in ordering large quantity, they have the flexibility to negotiate at any time. Given the example with the Covid 19 (Jones, Palumbo, Brown 2021) The opportunities that create is that if one of them increase the costs the business can quickly look to renegotiates prices. And company will only benefit in a long term. The company performance for 2020 was not as stable and profitable compare to the previous year or based on the original budget. Even tough the

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pandemic was very unexpected, and the businesses were not prepared and could not plan or implement any different strategy they are lessons to be learned. One of them is that product or even service-based businesses need to explore different channels of distribution. The consumers shopping habits are changing and during the pandemic they seem to look for an alternative way to shop. And the consumers have adopted a new way to explore and purchase goods. The online retailers are the only one that have increased revenue and profit during the pandemic. The online shopping become the great option to buy goods and services. For Amana's way of trading the impact was significant and did not put the performance in a favourable position. The tourist industry will take a while to recover for the pandemic. As a manager probably I will advise Amana's apart from finding a different supplier, looking for an option to sell products online to start selling different types of souvenirs that may consumers in UK purchase tourists visiting.

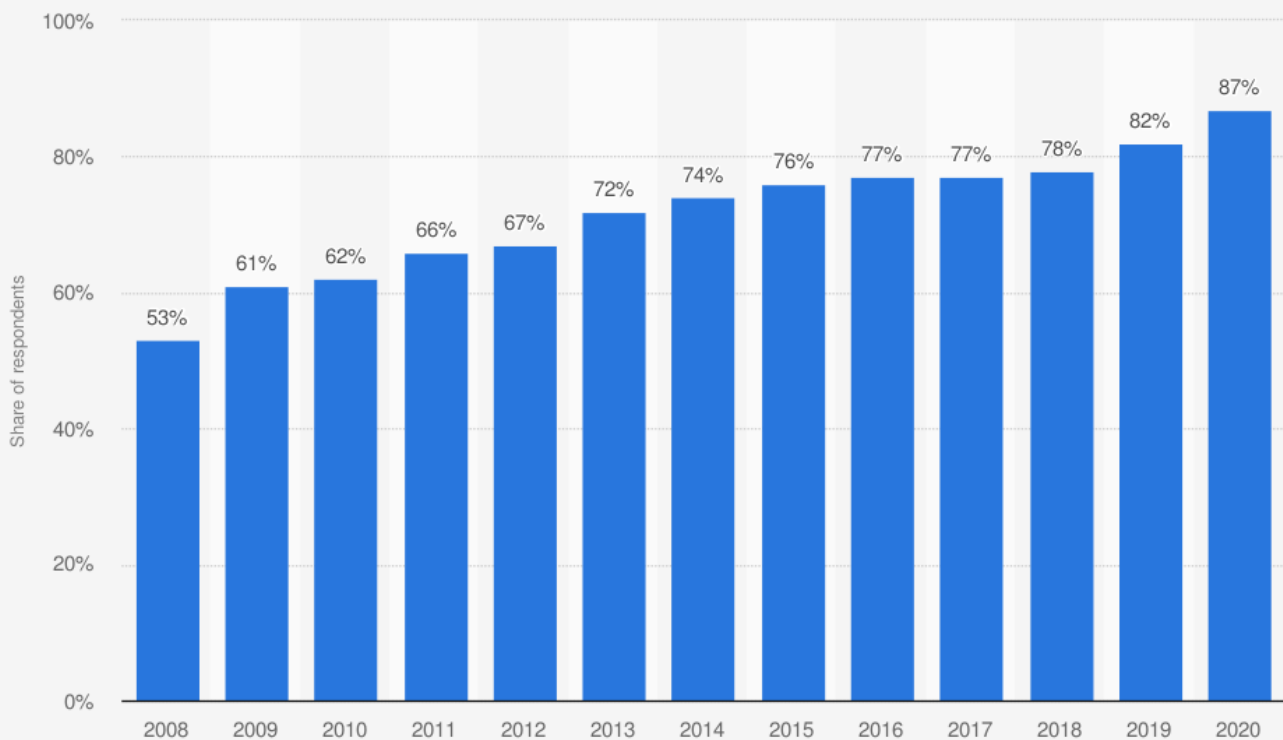
Part 2

Online retail

Mr. Amana has explored the option for the business to change direction and create a new strategy to sustain in the current environment. They are considering closing some of the branches and transferring 50% of the sales online. For the business to implement the following strategy they will need to consider some additional cost that may occur. From the information provided they will accumulate an additional of £235,000 from which fixed costs of £200,000 for setting up the platform and upgrading the website. Aman's will need to employ a full-time specialist of around £35,000 per annum fixed costs. From the research based on the current market Amna's has predicted a sale of 100,000 units annually. From the original budget we have calculated a profit of 1,350,000 even if they invest additional £235,000 the company will still be on profit. But the long terms benefit will be significant. The current position on the market will be stable and the company will be more resilient to any new factors. Based on the current year where the online retailers have increased the profits with 41%.

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Share of individuals who made purchases online in Great Britain from 2008 to 2020



Source
Office for National Statistics (UK)
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Additional Information:
United Kingdom (Great Britain); 2008 to 2020; 1,800**; 16 years and older; Online survey

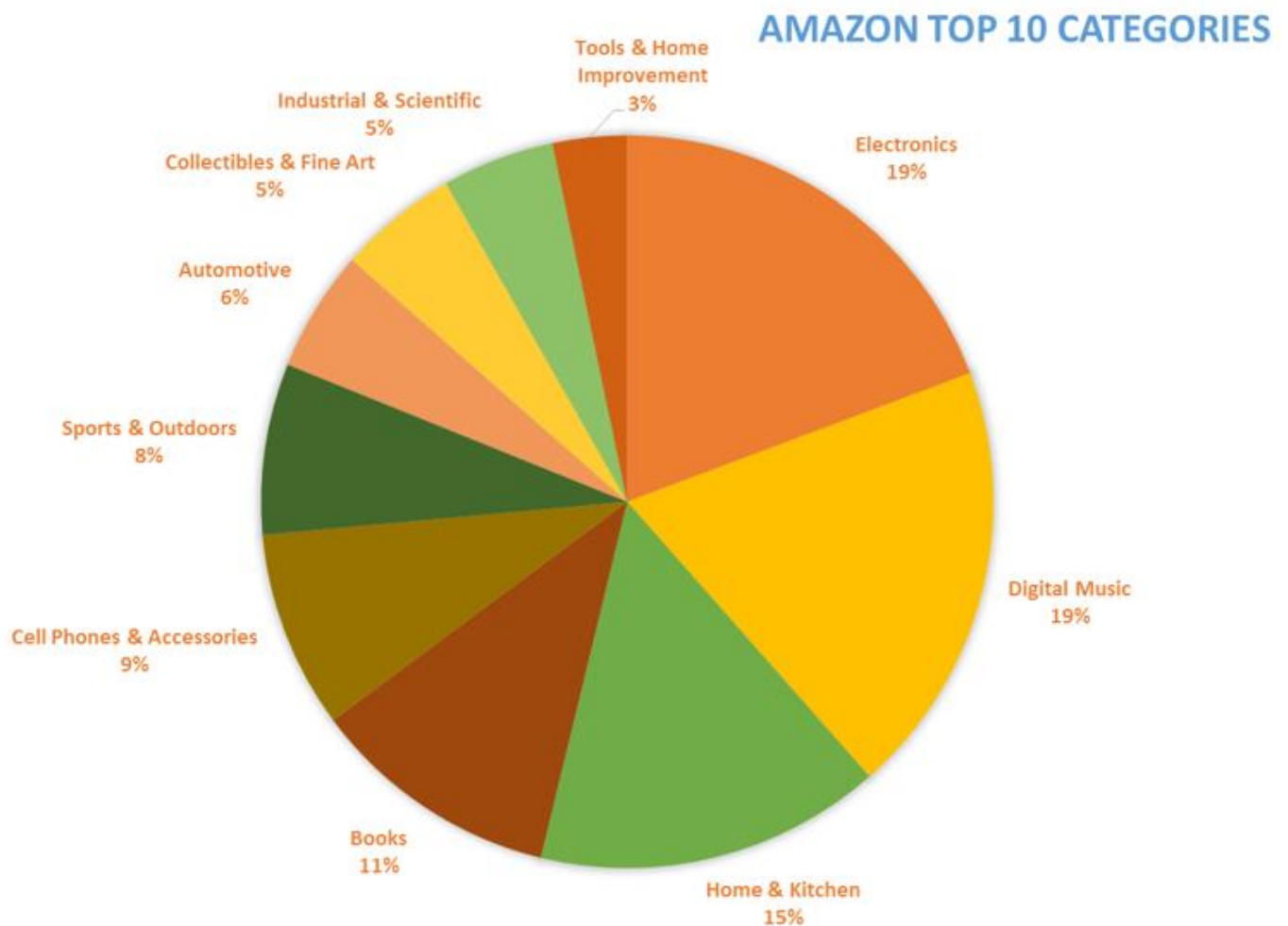
That is indicator for businesses to invest into the new technology and create more opportunities for additional revenue(Danton,2009). Even if Amana's sales 100,000 at reduced price they will generate a revenue of £2,000,000 and the which is a significant increase.

Amazon Retail and Recommendations

If we analyse the opportunity for Amana's to sell on Amazon, we can identify the following benefits. The company will be exposed to huge number of customer base. The company does not need to invest heavily in marketing and growing the customer base. Amazon has become one of the biggest online retailers with achieving strong position during the pandemic and proven that the model works. Consumer have realised the variety of products available on Amazon is huge and the delivery is very efficient. If Amana's decide to invest and sell the products on Amazon, they need to consider the fees that deduct and decision regarding products return and pricing.(NI Business Information,2021)Amana's Ltd will need to adopt a very flexible pricing policy if they choose the option to sell on Amazon.

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Amazon has a rating policy in place and customers are more likely to purchase products from the recommended or the first page (Amazon UK, 2021). That could be a disadvantage for Amana's. From the information above we can conclude that the better option for Amana's Ltd is to set its own platform to sell the products. They will have a better control over prices and can adopt flexible delivery policy. In terms of offering customers to deliver even in countries where for example Amazon is not established. The fees they will be paying Amazon could invest into a marketing strategy and grow the sales and reach customers worldwide. Other factor to be considered is the number of sales on Amazon will be lower and souvenir's is not one of the most popular categories for customers to search on Amazon.



Conclusion

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We can conclude that Amana's Ltd has suffered in loss of revenue and profit reduction during the pandemic due the industry restrictions. The business had to quickly adapt and make necessary changes to keep operating. They are very well-established company operating on the market for over 40 years. But they were not prepared for this factors and changes in the current economy climate. The use of the management accountancy tool gave the manager and Amana's owners an exceptionally good indication regarding the changes they need apply. Gave a clear direction about the new strategy they need to implement to be strong competitor on the market. The company has decided to explore the options for online presence which is the direction that the company need to adapt to maintain a healthy level of revenue. Based on the data and the financial reports the business was able to decide if the additional cost for the online platforms will be profitable.

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